Title Page:

The Financial Impact of Revenue Sharing on Collegiate Basketball Programs during March Madness

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Abstract

This paper examines the financial impact of revenue sharing in collegiate basketball, focusing on its role during the annual March Madness tournament. Revenue sharing plays a critical role in sustaining smaller programs but often disproportionately rewards high-performing teams. The research evaluates how this dynamic creates financial inequalities, using insights from legal cases, operational studies, and professional sports frameworks. Key areas of discussion include the stabilizing effects of revenue sharing, its role in deepening financial gaps, and the potential for reforms inspired by the NBA and NFL. By analyzing peer-reviewed studies and practical examples, this paper highlights the urgent need for a more equitable approach to revenue sharing in NCAA basketball ((Edelman, 2014; Goldfisher, 1997); Melouk & Keskin, 2012; Sullivan et al., 2024; Thompson, 2022).

Introduction

Every spring, millions tune in to March Madness, the NCAA basketball tournament that has become both a cultural phenomenon and a financial juggernaut. The tournament generates over $1 billion annually, largely from TV rights, sponsorships, and ticket sales. Revenue sharing, a cornerstone of the NCAA's financial model, allocates these earnings to participating schools. This mechanism is crucial for sustaining smaller programs, which often lack the external funding sources enjoyed by powerhouse schools. Yet, the revenue-sharing formula has sparked debate over its fairness, with critics arguing it disproportionately favors high-performing programs ((Edelman, 2014; Goldfisher, 1997)).

For example, powerhouse programs like Duke or Kentucky benefit from larger revenue shares due to their consistent tournament success, which enables them to reinvest in recruitment, facilities, and coaching. In contrast, smaller schools rely heavily on their revenue shares just to maintain basic operations. This disparity raises questions about the NCAA's commitment to competitive balance.

This paper builds directly on key concepts discussed in the course, particularly the financial dynamics of collegiate sports and their impact on competitive equity. Revenue sharing ties closely to lectures on economic sustainability and the role of resource allocation in sports management. Economic theories of equity versus efficiency, another focal point of the course, highlight how revenue sharing often sacrifices equity to reward efficiency, reinforcing financial dominance for high-performing programs. By extending these classroom discussions to real-world NCAA policies, this paper proposes solutions that balance fairness and sustainability.

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Thesis Statement: Revenue sharing during March Madness provides financial stability to smaller collegiate programs but simultaneously exacerbates inequalities by disproportionately rewarding high-performing programs. By examining these dynamics through legal, operational, and comparative frameworks, this paper highlights the need for reforms to create a more equitable system (Sullivan et al., 2024).

The Structure and Role of Revenue Sharing

Revenue sharing remains a cornerstone of the NCAA's financial model, particularly during March Madness, where the financial stakes are at their highest. As the primary method of redistributing tournament revenue among participating schools, this mechanism seeks to ensure that all

schools, regardless of size or performance, receive some portion of the financial benefits generated. However, the current formula for revenue sharing raises significant questions about fairness and the sustainability of smaller programs.

Revenue Generation Mechanisms

March Madness derives its revenue from three primary sources: the television broadcasting rights, sponsorship deals, and ticket sales. Of these, television rights are the most lucrative. For example, the NCAA's broadcasting contract with CBS and Turner Sports generates nearly $900 million annually, forming the largest portion of the revenue pool (Goldfisher, 1997). Sponsorships from major corporations, ranging from beverage brands to athletic gear companies, also bring in significant revenue. Ticket sales, while comparatively smaller, contribute additional millions each year, especially for games hosted at large-capacity arenas. These revenue streams collectively ensure that March Madness is one of the most financially successful events in American sports.

Performance-Based Allocation

While all participating schools receive a baseline share of this revenue, the distribution formula heavily rewards high-performing programs. Schools advancing to later rounds of the tournament are allocated significantly larger portions of the revenue pool. According to Melouk and Keskin (2012), this approach creates a tiered system where top-performing schools secure the majority of financial benefits. For instance, a team reaching the Final

Four earns a substantially higher share than a team eliminated in the first round. While this system aims to incentivize excellence and reward success, it inadvertently places smaller, less competitive programs at a disadvantage.

Historical Context

The revenue-sharing system has evolved over decades, initially introduced as a way to ensure that smaller programs could remain financially viable while competing with larger schools. However, as the financial stakes of collegiate athletics have grown, so too has the disparity in revenue distribution. Edelman (2014) notes that while the system was originally designed to promote equity, it now primarily reinforces the dominance of powerhouse programs. This shift has led to growing calls for reform, with critics arguing that the current model fails to address the unique financial challenges faced by underfunded schools.

Implications for Competitive Balance

The inequities in revenue sharing are not just financial but also competitive. High-performing programs use their larger shares of revenue to invest in better facilities, recruit top-tier talent, and hire elite coaching staffs. Sullivan et al. (2024) highlight that this creates a self-perpetuating cycle, where financially dominant programs maintain their competitive advantage, leaving smaller programs unable to keep up. These dynamics underscore the need for a more balanced revenue-sharing framework that better supports underfunded programs while still incentivizing success.

Financial Benefits for Smaller Programs

The introduction of Name, Image, and Likeness (NIL) policies has further complicated the financial landscape for smaller programs. Larger schools, with their superior resources, can offer lucrative NIL deals to athletes, attracting top talent away from smaller programs. While NIL rights empower student-athletes, they also widen the gap between larger and smaller programs, making it even harder for underfunded schools to compete (Thompson, 2022).

These challenges underscore broader concerns about the NCAA's current revenue-sharing framework, particularly its ability to support smaller programs in an increasingly competitive environment. The NIL era represents a shift that amplifies disparities and raises new questions about the fairness of existing financial models, leading to broader discussions of current issues.

For many smaller collegiate basketball programs, revenue sharing is more than just a financial mechanism—it is a critical lifeline. These programs often lack the external funding sources available to larger schools, such as major donations from alumni or lucrative sponsorship deals. Revenue sharing allows these schools to maintain their athletic departments, ensuring their continued participation in Division I basketball.

Operational Sustainability

Smaller programs depend on their shares of March Madness revenue to cover essential operational costs. This includes maintaining athletic facilities, funding scholarships for student-athletes, and paying coaching salaries. According to Edelman (2014), many of these schools operate on razor-thin budgets, where even minor fluctuations in revenue can have significant consequences. The funds they receive through revenue sharing

are often the difference between sustaining their programs and cutting them entirely.

Cinderella Stories and Visibility

One of the most celebrated aspects of March Madness is the emergence of “Cinderella teams”—smaller programs that achieve unexpected success during the tournament. These underdog stories captivate audiences and highlight the competitive spirit of collegiate basketball. Goldfisher (1997) emphasizes that such teams not only generate excitement but also bring visibility to smaller schools, often boosting their admissions and fundraising efforts. However, while these Cinderella runs provide temporary financial boosts, they rarely translate into long-term sustainability for these programs.

Challenges in the NIL Era

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Dependence on Revenue Sharing

Without the funds provided through revenue sharing, many smaller

programs would face significant financial challenges. In some cases, these schools might be forced to cut entire sports teams, reducing opportunities for student-athletes and undermining the diversity of collegiate athletics. This reliance on revenue sharing highlights the need for a more equitable distribution system that better supports smaller programs.

Financial Inequalities in Revenue Distribution

Despite its benefits, the current revenue-sharing system is far from equitable. High-performing programs consistently secure larger shares of revenue, creating a cycle of financial dominance that smaller schools cannot escape.

Disproportionate Earnings

Programs like Kentucky, Duke, and Gonzaga are prime examples of schools that disproportionately benefit from the current revenue-sharing model. These programs not only receive larger shares of tournament revenue but also leverage their success to attract additional funding from donors and sponsors. According to Sullivan et al. (2024), this creates a self-reinforcing cycle where successful programs continue to grow their financial resources, leaving smaller schools further behind.

Systemic Challenges

The performance-based allocation formula often ignores the unique challenges faced by smaller programs. Melouk and Keskin (2012) argue that structural biases in the system exacerbate financial inequalities, as

underfunded programs struggle to keep up with the escalating costs of competing at the Division I level. These systemic challenges are particularly evident in recruiting, where larger programs can outspend smaller schools to secure top-tier talent.

Proposed Reforms

To address these disparities, Sullivan et al. (2024) propose a series of reforms aimed at leveling the playing field. These include introducing revenue caps to limit the financial advantages of high-performing programs and implementing adjusted distribution formulas that prioritize the needs of smaller schools. Such reforms would help ensure that all programs, regardless of size or performance, have the resources they need to compete.

Lessons from Professional Sports

The financial disparities created by the NCAA's revenue-sharing model call for meaningful reform. Lessons from professional sports offer a valuable starting point. For example, the NBA’s luxury tax redistributes excess spending by high-revenue teams to support smaller-market franchises, promoting competitive balance. Similarly, the NFL’s equal revenue-sharing model ensures a baseline level of financial stability for all teams, regardless of performance. These systems highlight the potential for collegiate basketball to adopt hybrid models that combine equal distribution with performance-based incentives.

One proposal is to cap revenue shares for teams advancing beyond the Sweet 16, redistributing the surplus to programs eliminated in earlier rounds. This would reduce financial inequalities while maintaining incentives for success. Additionally, introducing a baseline funding model, where every participating school receives a guaranteed share sufficient to cover

operational costs, would stabilize smaller programs. These strategies, adapted from professional sports, can create a more equitable revenue-sharing system within the NCAA.

Professional sports leagues like the NBA and NFL provide valuable insights into how revenue-sharing systems can be reformed to promote greater equity. While these leagues face different challenges than collegiate athletics, their experiences offer a roadmap for addressing financial disparities within the NCAA.

NBA's Luxury Tax System

The NBA employs a luxury tax system, requiring high-spending teams to contribute to a shared pool that benefits smaller-market teams. Goldfisher (1997) highlights how this system helps promote competitive balance, ensuring that smaller teams can remain financially viable. However, the luxury tax is not without its flaws, as wealthier teams often find ways to circumvent its restrictions.

NFL's Equal Revenue Sharing

The NFL takes a simpler approach, distributing a significant portion of its revenue equally among all teams. This method ensures financial stability for smaller franchises, allowing them to invest in talent and facilities without being outspent by larger teams. Melouk and Keskin (2012) argue that a similar approach could be adapted for collegiate basketball, providing a baseline level of financial support for all programs.

Applicability to NCAA Basketball

While collegiate athletics face unique challenges, these professional frameworks demonstrate the potential for creating more equitable revenue-sharing systems. Thompson (2022) suggests that a hybrid model, combining equal distribution with performance-based incentives, could strike a balance between promoting equity and rewarding success. Such a system would ensure that smaller programs have the resources they need to compete while still incentivizing excellence.

Call to Action

The financial inequalities within NCAA basketball demand urgent attention. Without meaningful reforms, the current revenue-sharing system will continue to disadvantage smaller programs, undermining the NCAA's commitment to fairness and competitive balance.

To address these challenges, the NCAA must consider adopting revenue-sharing reforms inspired by professional sports. For example, implementing a revenue cap or introducing a more equal distribution formula could help bridge the financial gap between smaller and larger programs. Additionally, the NCAA should account for the impact of NIL policies, ensuring that smaller schools are not further disadvantaged in recruiting and retaining talent.

Reforms must also prioritize the long-term sustainability of collegiate athletics. By creating a more equitable system, the NCAA can support

smaller programs and enhance the overall competitiveness and appeal of March Madness. Such changes would reaffirm the NCAA's mission of promoting fairness and opportunity for all student-athletes, ensuring that every team has a chance to succeed.

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